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Contract Monitoring



CONTROLS?

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### How About These?



While auditing towing service contracts, City of San Jose (CA) auditors found contractors had both overcharged the city \$28,000 for services and underpaid the city \$32,000 for fees. The losses were attributed to poor "administrative oversight" (lax contract monitoring).

King County (WA) auditors found that one department's use of temporary contract workers: "materially altered the scopes of contracts after award and subverted the county's fair and open competition procurement objective." The practice also bypassed the County's merit system and increased projected contract costs by \$1.2 million, as the primary vendor (low bidder) was not utilized.

### Monitoring Tip

Monitoring activities for individual contracts should be periodically rotated among staff to help prevent employees from developing personal relationships with vendors.

*Internal Audit's proactive role includes helpful educational activities (such as self assessment classes, presentations, training) and this publication for management.*

### Director of Materials Management on Contract Monitoring



Wes Baysinger

Independent studies have found that governments are much more likely to be defrauded by contractors than private businesses. Why? The studies cite many reasons, as well as, show that we need to better assure that we receive what was ordered and pay the agreed upon price. This task should not be difficult and is one that we all perform in our personal lives.

Four activities can ensure that contractors do not take advantage of us. **First**, we need to clearly and concisely define our requirements; generally called contract specifications or scope of work. If specifications are unclear or ambiguous, monitoring will be difficult. **Second**, we need to verify data and measure success. This activity can be as simple as confirming that we received what was ordered in the time and price specified. Verifying service contractors' performance can often be somewhat more difficult.

**Third**, monitoring duties should be performed by a person who has sufficient knowledge, skills, and authority. This responsibility is often

assigned to a new employee because management may not value the activity until a problem arises.

**Finally**, document all monitoring activities in writing and contact the contractor, as soon as possible, after a problem has been identified to resolve the issue.

Stop and think ... how much of your annual budget is spent through a contract? Consider how much could be saved if monitoring recovered 5% of that amount. Also, don't ignore revenue contracts. Monitoring can be even more critical for these because the County often relies upon contractors to provide the data used to determine the amount owed.

We need to debunk a commonly held notion that governments are patsies that can be "taken for a contract ride". When you write a personal check or collect a debt, how do you make sure that you have been treated fairly? Always remember, you're a taxpayer and it's your money too.

### Are You Paying For Someone Else's Services?



During a contract audit, Internal Audit found that a vendor continuously billed a County department for services provided to the **State of Arizona**. The department approved payment for all of these invoices because staff had not adequately reviewed the billings and were unfamiliar with contract provisions.

**NOTICE:** Internal Audit and Materials Management will jointly be presenting a Contract Management Training class. Managers, supervisors, and senior staff who manage and oversee Article 3 contracts should attend. Class dates, times, locations, and sign-up procedures will be announced by the Organizational Planning and Training office.

Contact Internal Audit for internal control advice at (602) 506-1585